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Purchasing Index Declines to 46.7%

New Orders and Production Weaker

Inventories Off

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

July Report

The economy weakened further in July, say the nation's purchasing managers in their latest **Report on Business.** The Purchasing Managers' Composite Index fell sharply to 46.7% from 49.6% in June. Production decreased still further to levels not seen since last summer. Much of this can be attributed to planned plant shutdowns. New orders also declined. Moreover, for the first time since December 1985, more members reported new orders as worse rather than better. Inventories fell significantly in July, reflecting sharply decreased production levels. Employment was also moderately lower. Price increases were minor as once again more purchasers reported prices lower rather than higher, following a one-month reversal of that trend. In response to a special question, 43% of members said the second quarter was better than the first compared to 26% who said it was worse. When asked to predict the third quarter, only 34% said it would be better than the second, compared to 31% who forecast it as worse.

"Fueled by seasonal plant shutdowns, the economy continued to weaken in July. For the second consecutive month, virtually all indicators were off, a disturbing trend if it doesn't end soon," said Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of purchasing and distribution, Pitney Bowes, Inc.

The **Purchasing Managers' Composite Index** declined sharply to 46.7% after a significant drop to 49.6% in June from 54.4% the month before. This leading indicator has now registered below 50% for the third time in 1986. The 46.7% total in July is the lowest since January 1983 (46.1%), when the current recovery was just beginning. A reading below 50% generally indicates that the economy is in a declining phase: above 50%, that the economy is generally expanding. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment continued to drift lower in July as 23% of the members reported lower employment; this is up from 22% in June. Only 10% reported higher employment, down from 11% in June.

Employment %	Higher	Same	Lower	Net Differ.
July	10	67	23	−13
June	11	67	22	−11
May	13	70	17	− 4

Buying Policy

In July, lead times for production materials remained virtually unchanged as 58% of members reported they could obtain materials within 30 days, 83% within 60 days. In the important capital expenditures category, lead times shortened as 51% reported lead times of 6 months or longer; this is down from 56% in May and June. Lead times for maintenance repair and operating (MRO) supplies lengthened slightly as 42% reported buying hand-to-mouth; this is down from 45% in June.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
July	18	40	25	10	7
June	18	40	24	12	6
May	21	40	26	7	6
MRO Supplies %					
July	42	46	6	5	1
June	45	43	7	4	1
May	44	46	7	3	0
Capital Expenditures %					
July	12	8	7	22	51
June	14	6	7	17	56
May	16	10	4	16	54

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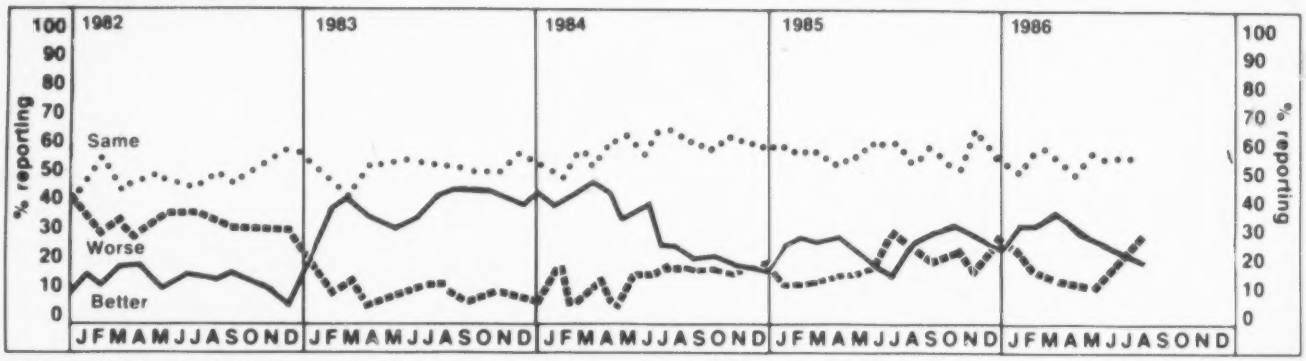
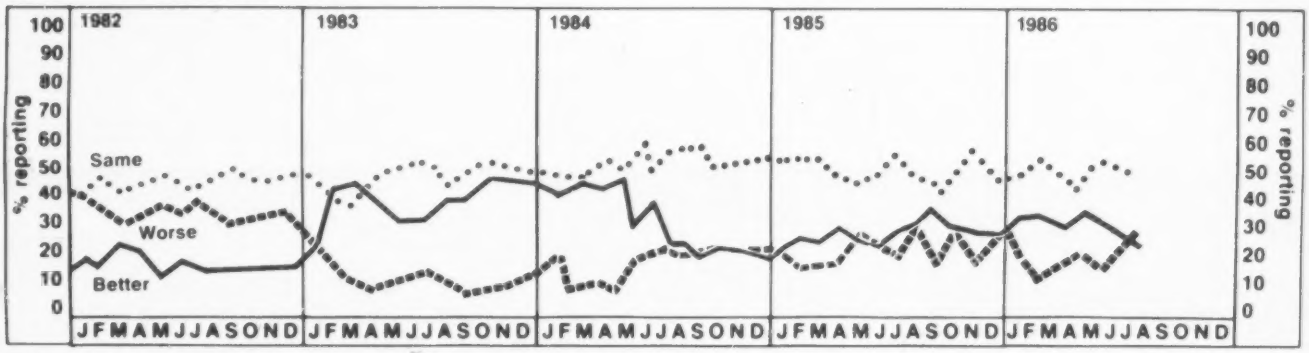
Production



Production declined significantly in July—a seasonal occurrence resulting from nearly half of the members' plants shutting down during the summer for planned maintenance and/or employee vacations. The 49% of members reporting shutdowns this summer is higher than last year (46%) and the most since 1982. Of those shutting down plants, 69% indicated the closing would occur in July.

Production %	Better	Same	Worse	Net
July	17	55	28	−11
June	25	55	20	+ 5
May	28	56	16	+12

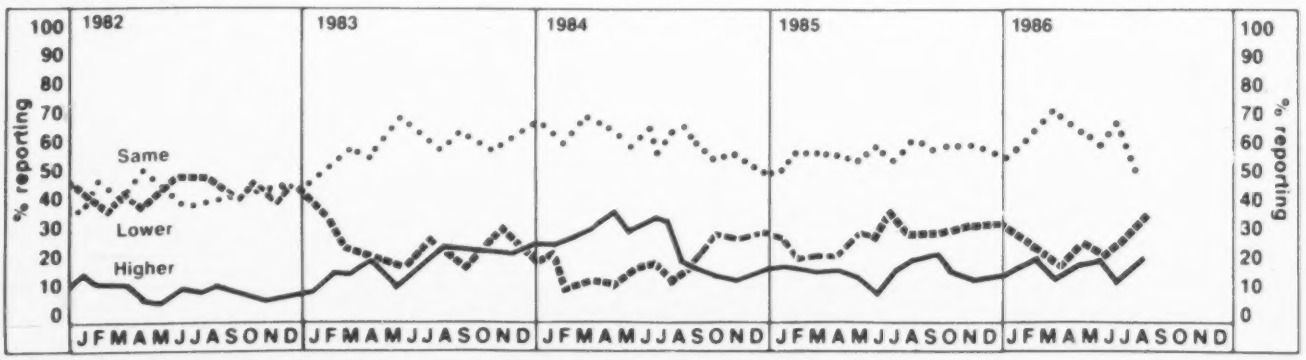
New Orders



New orders declined in July. More members reported new orders as worse (25%) rather than bett (23%); this has not occurred since December 1985. The 23% reporting new orders as better is the lowest since July 1985 (22%). This key indicator should be watched closely in the next few months.

New Orders %	Better	Same	Worse	Net
July	23	52	25	− 2
June	27	54	19	+ 8
May	34	51	15	+19

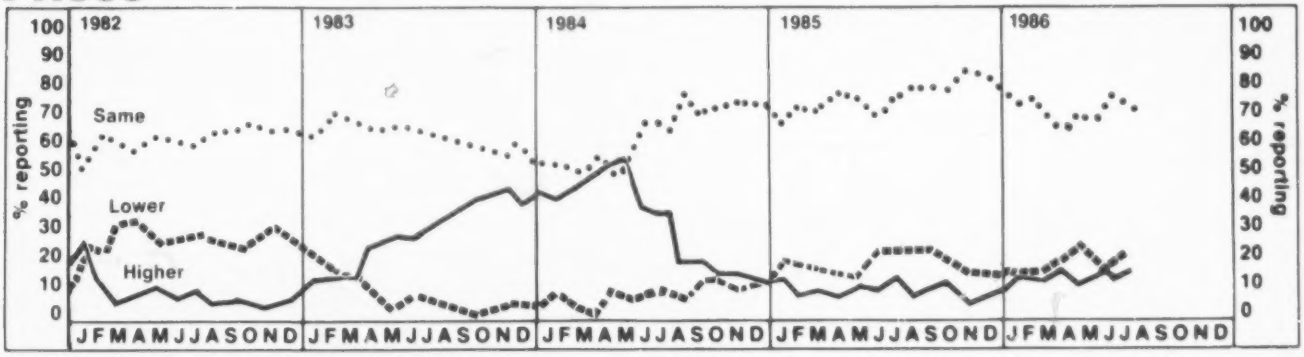
Inventories



In July, net inventory levels declined once again. Even though the 17% who reported higher inventories is up five points from June, the 33% who said their inventory is lower, is up nine points. This is the most to report lower inventories since January 1983 (40%) when the current economic recovery was beginning.

Inventories %	Higher	Same	Lower	Net
July	17	50	33	−16
June	12	64	24	−12
May	19	59	22	− 3

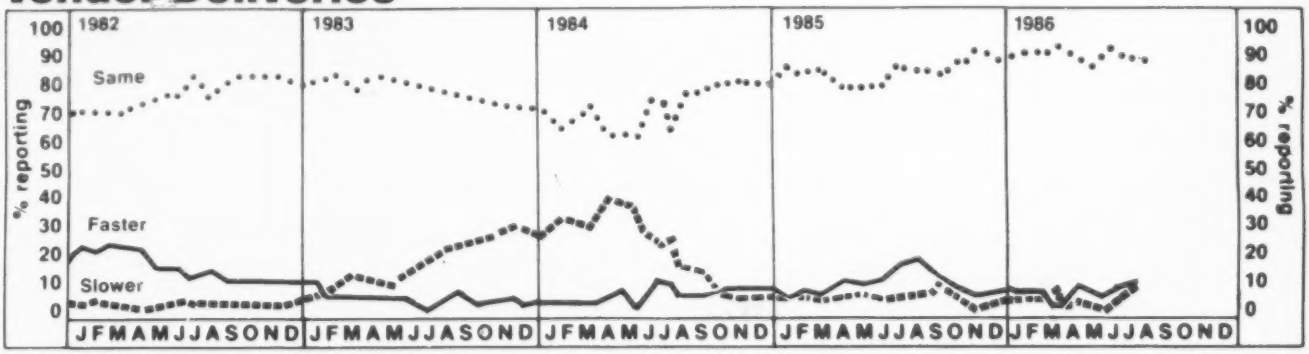
Prices



In June, for the first time in 19 months, more purchasers reported paying higher rather than lower prices. However, in July, more members once again reported paying lower compared to higher prices. In a special question which asked members to compare their actual net price increases for the third quarter to their budgeted expectations, twice as many said they were lower (28%).

Prices %	Higher	Same	Lower	Net
July	13	72	15	− 2
June	12	78	10	+ 2
May	16	67	17	− 1

Vendor Deliveries



The speed of vendor deliveries improved slightly in July for the second consecutive month. This is an indication that vendors are not having problems meeting purchasers' scheduled requirements.

Vendor Deliveries %	Faster	Same	Slower	Net
July	6	88	6	0
June	7	89	4	+ 3
May	4	94	2	+ 2

Specific Commodity Changes

Titanium dioxide was reported in short supply for the fourth time in 5 months. However, it remains the only item in short supply in the last 18 months. For the fourth consecutive month, corrugated shipping containers were reported higher in price. Aluminum was also reported as being up in price for the fifth time in the last 7 months. Printing paper was also reported higher in price. Ten items were reported lower in price in July, many of which were petroleum related. Fuel oil prices were reported lower for the seventh consecutive month. Other petroleum related products reported lower in price were diesel fuel, gasoline, natural gas, benzene, methanol, bearings, copper, wheat, and cocoa.

UP in Price: Corrugated shipping containers, paper, and aluminum

DOWN in Price: Fuel oil, diesel fuel, gasoline, natural gas, benzene (used as a chemical solvent and in motor fuels), methanol (work horse chemical), bearings, copper, wheat, and cocoa.

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available Sept. 2, 1986.

Commodity Reports

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee; chairman, Carl D. Dirkse, C.P.M., Johnson Wax, Racine, WI.

Overall, the packaging and containers market continues to enjoy adequate supply and stable prices. One exception is glass containers, whereby the supply is experiencing some tightness and prices are increasing. After several years of surplus capacity and falling prices, both folding cartons and corrugated are showing some strength.

Metal Cans

The supply for metals cans continues to be adequate to surplus. Several steel companies have settled their labor contracts, and the can companies have increased their steel inventories to cover any possible strikes. A few members report price increases, but prices are generally stable.

Fibre Cans

The conversion to plastic leaves the fibre can industry with surplus capacity; as a result, prices are weak.

Glass

Previous plant shutdowns continue to limit the supply of glass containers. Some members are experiencing long leadtimes. Price increases are also being reported.

Molded Plastics

Most members report adequate supply and stable prices for molded plastics. However, we have members reporting both price increases and decreases. It appears that price decreases in crude oil and natural gas have not been fully passed along to plastic buyers.

Films

Not much is new in the film area — adequate to surplus supply and stable prices still remain. Some price increases are being attempted, but with little success.

Laminated Stock

The laminated stock industry has been experiencing adequate supply and stable prices. However, with the aluminum producers on strike, leadtimes are extending and some price increases are being put through.

Metal Drums

This continues to be a very stable market. There is plenty of capacity and not much movement in prices.

Fibre Drums

This is another quiet market. There are relatively few suppliers, plenty of capacity, and stable prices.

Folding Cartons

Supply continues to be adequate to surplus for folding cartons. However, after several years of weak prices, price increases are finally sticking, particularly on SBS and SUS.

Corrugated

Linerboard mills are putting out record tonnage. Exports have increased with the weaker dollar and strengthening foreign economies. At the time of this writing, linerboard was $290.00 per ton; paper companies are trying to increase this. Availability from converters is still good on most items. Many attempts are being made to increase prices, with some success.

Bags

Bag availability is still good, but some members are reporting price increases.

Paper Products

Prepared by the N.A.P.M. Paper Committee; chairman, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

Pulp

The leading species of this commodity is Northern Softwood. This particular grade has increased by $120.00 per metric ton in 1986; including a price increase effective July 1. By fall, spring and summer down-time producers may get back into full production, driving pulp inventories up once again. May operating rates increased by 2% over April, shipments were down by 93,000 tons, and production was up by 62,000 tons, indicating inventories started increasing in May. Pulp inventories declined by 114,000 tons in the first quarter, although exports increased by 27.2%.

Newsprint

Newsprint remains readily available with excess capacity by both U.S. and foreign producers. More capacity is scheduled to come on-line in fall 1987. Deliveries are readily available. List prices have remained constant for some time. Discounts are prevalent from list prices and have been increasing in recent months in anticipation of the normal reduced demand during the summer months. No supply problems are anticipated. Mills are trying for an approximate 9% price hike for October (yet it's too early to judge its success).

Coated Papers

The three- to six-month projection is that coated papers will remain plentiful. Additional capacity is due the first quarter of 1987. Deliveries are running two to four weeks. Inventories are remaining constant. Prices are holding steady, mostly at 1984 levels. Some discounting is prevalent. No major price changes are expected for the next six months, although, mills are hoping that prices will firm around year-end.

Uncoated Free Sheets

From feast to famine! The demand for uncoated free sheet has been very strong. Large buyers are being controlled by loosely monitored "allocations" or "reservations." Production through April is up 7.6%. Form grade shipments in the first quarter were up 15.5% and carbonless base stock was up 17.3% over last year. Bond paper shipments up 9.9% and offset paper shipments up 9.3% compared to last year. Imports through March are up 54%. Imports now account for 4.6% of the total consumption of uncoated white free sheets in the U.S. Most grades in this commodity have just received notification of either their second or third price increase for this year. In general, price levels are only approaching those of 1984.

Deliveries range from two weeks to two months (two-week deliveries are essentially on a reservation system). One west coast mill, not allocating tonnage, reports backlogs extending into September (as of June 20). The frustrating aspect of this market is that no one can specify any one area attributing to this demand. Some speculation reveals production is going into inventory building, both by mills, distributors, and convertors, who are all hedging against price increases. The tablet market has been very strong but should moderate as the back to school market demand is met. (The new machine in Port Hudson, LA, is running and virtually already absorbed.)

Two more increases in capacity are scheduled yet this year at Pensacola, FL, and Selma, AL. There should be more than enough capacity to supply the uncoated free sheet market for the remainder of 1986 well into 1987. The main concern of buyers is the lack of announced additional capacities after this year. This commodity requires constant surveillance.

Bleached Bristols

Bleached bristols are experiencing the first signs of some tightening. Backlogs are increasing rapidly. Expectations are that supply could become even tighter. Deliveries are ranging from three to six weeks. Inventories are mixed — some report decreases, some a holding level, and some increases. There appears to be the start of an upward movement in prices. The projection for the next six months is that prices will increase. This commodity has surged in production by 9.3% in the first four months of 1986 compared to the same period of 1985.

Paperboard

Paperboard demand has tightened in recent months. Most of the added production of this grade appears to be exported. Unbleached Kraft linerboard produced for export increased 27.6% for the first four months of 1986, which has increased lead times to as much as eight weeks. Capacity should be adequate to cover demand even at the increased levels. Deliveries are expected to remain extended, and minimal new capacity is expected. Inventory levels are increasing slightly. Prices have firmed recently and increases are expected in the near future.